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Public Employee Retirement Administration Commission
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M E M O R A N D U M

To: All Retirement Boards

From: Robert A. Dennis, Investment Director

Subject: Investment Matters

Date: January 17, 2001

As we begin the new year, here are a few observations, clarifications, and comments relative to the PERAC Investment Regulations and the retirement systems' investment process.

1. PERAC understands that special circumstances sometimes require a retirement board to terminate its relationship with an investment manager on short notice. In such cases, the board may feel that it does not have sufficient time to conduct a full competitive process in order to hire a new manager(s) and maintain its targeted asset allocation. The Investment Regulations do not include any "emergency" provisions under which retirement boards can hire investment managers without a full competitive process. However, if retirement boards notify PERAC of the circumstances warranting the termination as well as the intended course of remedial action, we will expeditiously consider such requests.
2. Whenever an investment management account undergoes a name change as a result of administrative change (such as going from a separate account to a commingled fund) or modest change in strategy, please inform PERAC. In most cases, such changes should be authorized by a request for a supplemental regulation under Investment Guideline 99-2 which allows for modest changes to existing investment mandates. (At the same time, boards should be reminded that Guideline 99-2 is not intended to authorize relatively major changes, such as extending a large cap manager's mandate to small cap or a growth manager's mandate to value.)
3. A number of retirement boards have appropriately used Investment Guideline

99-3 in order to expedite their participation in successor partnerships of existing alternative investments managers. For the purpose of clearing up any possible misunderstanding, the provisions of that Guideline do not apply to real estate investments.

4. A number of retirement systems are using benchmarks for overall portfolio performance that are no longer relevant to their actual portfolios. At a time when systems typically have a greater percentage of portfolio assets in stocks than in bonds, benchmarks such as “40% S&P 500, 60% Lehman Brothers Government/Corporate Index” are no longer reflective of expected performance. Systems should develop overall portfolio benchmarks that are generally consistent with current or target ranges for asset allocation.
5. We receive frequent calls from investment managers who are responding to RFPs from PERAC systems and are puzzled by certain questions. Questions that ask whether prospective managers have been “approved” or have been “granted an exemption” by PERAC are understandably confusing. As you know, this agency does not consider the merits or qualifications of managers prior to their selection by a retirement board. Furthermore, exemptions (or “waivers”) are not required for managers of domestic equity or fixed income; our periodic List of Qualified Managers applies only to international securities, real estate, and alternative investments. If a board is simply trying to determine whether a prospective manager currently manages money for other retirement systems in Massachusetts, it may be advisable to re-word and clarify the RFP.
6. The competitive process requirements of the Investment Regulations apply not only to investment managers, consultants, and custodians but also to other providers of investment-related services such as commission recapture dealers and managers of distributions from private equity partnerships.

Finally, I have appreciated the opportunity to participate in board meetings of about thirty retirement systems last year. I found these meetings, which often included consultant presentations and investment manager reviews, to be beneficial to all concerned. I look forward to making additional board visits in 2001. We continue to encourage all systems to suggest ways we can assist them in terms of investment research, education, or guidance.

These turbulent times in the financial markets highlight the importance of retirement boards meeting with their investment managers at least annually in order to determine whether the managers are satisfactorily fulfilling their investment mandate. Also, retirement boards are reminded that, in accordance with Investment Regulation 16.07(2)(c), a copy of each investment manager’s written performance report should be forwarded to this agency.